

IRS TAX TIP 2003-48

DON'T BE TAKEN IN BY TAX SCAMS

The IRS reminds taxpayers not to fall victim to a variety of tax scams. These schemes take several shapes, ranging from promises of special tax refunds to illegal ways of “untaxing” yourself. If people think something may be unscrupulous, they can report suspected tax fraud to the IRS at 1-800-829-0433.

The IRS urges people to avoid these common schemes:

OFFSHORE TRANSACTIONS. Some people use offshore transactions to avoid paying United States income tax. Use of an offshore credit card, trust or other arrangement to hide or underreport income or to claim false deductions on a federal tax return is illegal.

Through April 15, the IRS is offering people with improper offshore financial arrangements a chance to make things right. Eligible taxpayers who step forward will not face civil fraud and information return penalties. A taxpayer involved in these schemes who does not come forward now, however, will be subject to payment of taxes, interest, penalties and potential criminal prosecution.

People interested in participating in the program, called the Offshore Voluntary Compliance Initiative, can contact the IRS by calling 215-516-3537 (not a toll-free call).

IDENTITY THEFT. Identity thieves use someone’s personal data to steal his or her financial accounts, run up charges on the victim’s existing credit cards, apply for new loans, credit cards, services or benefits in the victim’s name and even file fraudulent tax returns.

At least two recent identity theft scams involved taxes or the IRS. In one, tax preparers allegedly used information, such as Social Security numbers and financial information, from their clients’ tax returns to commit identity theft. In another, fraudsters sent bank customers fictitious bank correspondence and IRS forms in an attempt to trick them into disclosing their personal and banking data.

For taxpayers, it pays to be choosy about disclosing personal and financial information. And the IRS encourages taxpayers to carefully select a reputable tax professional.

PHONY TAX PAYMENT CHECKS. In this scheme, con artists sell fictitious financial instruments that look like checks to pay a tax liability, mortgage and other debts. The con artists may also counsel their clients to use a phony check to overpay their taxes so they can receive a refund from the IRS for the overpayment. The false checks, called sight drafts, are worthless and have no financial value. It is illegal to use these sight drafts to pay a tax liability or other debts.

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AFRICAN-AMERICANS GET A SPECIAL TAX REFUND. Thousands of African-Americans have been misled by people offering to file for tax credits or refunds related to reparations for slavery. There is no such provision in the tax law. Some unscrupulous promoters have encouraged clients to pay them to prepare a claim for this refund. But the claims are a waste of money. Promoters of reparations tax schemes have been convicted and imprisoned. The IRS reminds taxpayers that they could face up to a \$500 penalty for filing such claims if they do not back away from the claim.

NO TAXES WITHHELD FROM YOUR WAGES. Illegal schemes are being promoted that instruct employers not to withhold federal income tax or employment taxes from wages paid to their employees. These schemes are based on an incorrect interpretation of tax law and have been refuted in court. If you have concerns about your employer and employment taxes, you can get help by calling the IRS at 1-800-829-1040.

IMPROPER HOME-BASED BUSINESS. This scheme purports to offer tax "relief" but in reality is illegal tax avoidance. The promoters of these schemes claim that individual taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a bogus home-based business. But, the tax code firmly establishes that a clear business purpose and profit motive must exist in order to generate and claim allowable business expenses.

PAY THE TAX, THEN GET THE PRIZE. The caller says you've won a prize and all you have to do to get it is pay the income tax due. Don't believe it. If you really won a prize, you may need to make an estimated tax payment to cover the taxes that will be due at the end of the year. But the payment goes to the IRS – not the caller. Whether you've won cash, a car, or a trip, the prize giver generally sends you and the IRS a Form 1099 showing the total prize value that should be reported on your tax return.

FRIVOLOUS ARGUMENTS. Frivolous arguments are false arguments that are unsupported by law. When a scheme promoter says "I don't pay taxes – why should you" or urges you to "untax yourself for \$49.95," beware. The ads may say that paying taxes is "voluntary," but that's just plain wrong. The U.S. courts have continuously rejected this and other frivolous arguments. Unfortunately, hundreds of people across the country have paid for the "secret" of not paying taxes or have bought "untax packages." Then they find out that following the advice contained in them can result in civil and/or criminal penalties. Numerous sellers of the bogus schemes have been convicted on criminal tax charges.

SOCIAL SECURITY TAX SCHEME. Taxpayers shouldn't fall victim to a scam offering them refunds of the Social Security taxes they have paid during their lifetimes. The law does not allow such a refund. The scam works by charging the victim an upfront "paperwork" fee of \$100, plus a percentage of any refund received, to file a refund claim with the IRS. The IRS processing centers are alert to this hoax and have been stopping the false claims.

"I CAN GET YOU A BIG REFUND...FOR A FEE!" Refund scheme operators may approach you wanting to "borrow" your Social Security Number or give you a phony W-2 so it appears that you qualify for a big refund. They may promise to split the refund with you, but the IRS catches most of these false refund claims before they go out. And when one does go out, the participant usually ends up paying back the refund along with stiff penalties and interest.

SHARE/BORROW EITC DEPENDENTS. Unscrupulous tax preparers "share" one client's qualifying children with another client in order to allow both clients to claim the Earned Income Tax Credit. For example, a client with four children only needs to list two to get the maximum EITC credit. The preparer will list two children on the first client's return and the other two on another client's tax return. The preparer and the client "selling" the dependents split a fee. The IRS prosecutes the preparers of such fraudulent claims, and participating taxpayers could be subject to civil penalties.

IRS "AGENT" COMES TO YOUR HOUSE TO COLLECT. Do not let anyone into your home unless they identify themselves to your satisfaction. IRS special agents, field auditors, and collection officers carry picture IDs and will normally try to contact you before they visit. If you think the person on your doorstep is an impostor, lock your door and call the local police. To report IRS impostors, call the Treasury Inspector General's Hotline at 1-800-366-4484.

CLAIM DISABLED ACCESS CREDIT FOR PAY PHONES. Con artists sell expensive coin-operated pay telephones to individuals, contending they can claim a \$5,000 Disabled Access Credit on their tax return because the telephones have volume controls. In reality, the Disabled Access Credit is limited to bona fide businesses that are coming into compliance with the Americans with Disabilities Act.

Two lessons to remember:

- Anyone who promises you a bigger refund without knowing your tax situation could be misleading you, and
- Never sign a tax return without looking it over to make sure it's honest and correct

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